



NEW ZEALAND COUNCIL OF TRADE UNIONS

Submission

of the

New Zealand Council of Trade Unions

to the

Commerce Commission

on the

Proposed Alliance between Air New Zealand and Qantas

14 February 2003

1. Introduction

1.1 The New Zealand Council of Trade Unions (CTU) is the internationally recognised central trade union centre in New Zealand. It represents 34 affiliated unions with a membership of approximately 300,000.

1.2 Included among our affiliates are a number of the unions with members employed by Air New Zealand. These include:

2. CTU Position on Proposed Alliance

2.1 The CTU supports the proposed alliance. We set out the basis for this position in this submission.

2.2 Our support for the proposed Alliance does not mean we agree with all the arguments or projections by NECG and Air New Zealand.

3. Principles of the CTU Approach

3.1 The CTU position in relation to the proposed alliance (the "Alliance") has been determined based on some key principles. These are:

- job security and potential for growth
- quality service
- contribution to economic development
- comparison with the counterfactual
- consumer protection
- impact on Government revenue

- 3.2 The CTU also represents affiliated unions whose members are affected by the cost of air travel both in terms of the impact on employment opportunities if their firm faces additional costs, and as private passengers.
- 3.3 The CTU recognises that an overall net benefit needs to be demonstrated in terms of the negative impact of loss of competition and the positive factors accruing from the Alliance.
- 3.4 The CTU also believes that it is crucial to ensure that the management within Air New Zealand have the expertise to manage the complex relationships with Qantas implicit in a strategic alliance.

4. Job Security

- 4.1 We note the indication that the Alliance will result in 200 additional engineering jobs in Air New Zealand. This is a significant outcome from our perspective. However, there needs to be a high level of certainty about such projections.
- 4.2 Co-ordination of scheduling routes, capacity and aircraft flown is a critical issue. What guarantees are there of net employment gains as a result of this co-ordination? If there are job losses in some aspects of Air New Zealand operations this could also have multiplier effects externally.
- 4.3 There are major implications in the Alliance as a result of anticipated elimination of duplication. The NECG Report notes (NECG:135) that:

"Functions likely to be subject to some scale economies include lounge maintenance, IT system maintenance and possibly front line functions such as baggage handling and check-in services".

- 4.4 Unions are concerned about the impact on jobs of the synergies implicit in the proposed Alliance.
- 4.5 The CTU is formally seeking an undertaking that Air New Zealand staff will not be made redundant or be adversely affected by the Alliance. We also seek an undertaking that there will be 200 more engineering jobs.
- 4.6 These undertakings should be conditions of approval by the Commerce Commission for the proposed Alliance.
- 4.7 We also recognise the concerns expressed by the Australian Council of Trade Unions about job losses.

5. Quality Service

- 5.1 The CTU believes that a strategic alliance is an option which preserves an FSA. This is important for a quality service. While there is no doubt that there are elements of the VBA approach that are attractive to customers, there are significant downsides.
- 5.2 VBA viability appears to depend almost entirely on the extraction of greater productivity through quicker turn-around and more intensive use of labour. While this may appear attractive to some, it has a significant impact on employment conditions and is not sustainable.
- 5.3 In addition, the unions believe that the tourism market requires a quality service.

6. Compatibility with Economic Development

- 6.1 The CTU supports policies that underpin the development of a high wage, high skill, high trust, and quality, export economy. This requires for New Zealand strong and reliable international transport capacity. The importance of global connections for people as well as goods and services cannot be underestimated.
- 6.2 That is one of the reasons why it was so important for the New Zealand Government to invest in Air New Zealand. The CTU believes that the proposed Alliance will provide added stability to guarantee effective and reliable international air transport which assists with export growth. It is in the national interest to have scale which underpin global connectedness.
- 6.3 However, we are concerned that the projections about job creation within the tourist sector could be overstated.

7. What is the counterfactual?

- 7.1 There are several counterfactual elements. What is obvious is that we should not compare the proposed Alliance with the current situation in a static sense. The entire airline industry is in a state of uncertainty and contraction. The industry has also seen the growth of international marketing alliances.
- 7.2 The NECG Report notes that a sustained period of aggressive competition is the most likely counterfactual. The CTU is concerned that Air New Zealand operations could be significantly damaged in this process.

8. Consumer Protection

- 8.1 The CTU recognises that there are consumer concerns about the price effects of the proposed Alliance.
- 8.2 This has direct implications for workers when they want to fly in a private capacity. It also impacts less directly on workers if their firms face additional costs.
- 8.3 However, we note also that opportunities exist for "fifth freedom" carriers on Trans-Tasman routes.
- 8.4 We note also the undertakings given by Air New Zealand and Qantas to assist the entry of a VBA operator. They believe that the Alliance will "stimulate" the entry of a VBA. VBAs are likely to focus on the three routes which account for 94% of domestic passengers and the four routes which are used by 77% of Trans-Tasman passengers.
- 8.5 The potential for rent seeking does exist in the proposed Alliance, but the outcome of a sustained period of aggressive competition could also result in a dominant player which could also indulge in rent seeking.
- 8.6 The obvious problem in New Zealand is that the domestic market has never been sufficient to support two network carriers. The attempts to have two fully serviced operators compete in our small domestic market have resulted in a significant downside for workers as consumers as one operator then collapses.
- 8.7 There is a very real risk that the Trans-Tasman market could be similarly affected.

- 8.8 This means that rather than take an obsessive approach to competition, it is more sensible to protect the consumer through price surveillance and regulation. While it is recognised that the potential exists for a VBA to enter the market alongside the proposed Alliance, we do not believe that the Commerce Commission should impose unreasonable conditions on the proposed Alliance to achieve this. We believe it is far better for the Commerce Commission to examine the feasibility of regulatory or price surveillance measures instead.
- 8.9 There is another element that affects prices. New Zealand travellers and those sending freight by air will be very critical of the Government as the majority shareholder if Air New Zealand is unreasonably increasing prices. While we are not suggesting this amounts to direct price control, we believe it has an indirect effect on prices.
- 8.10 In addition, it is hard to see how tourism will grow significantly under the proposed Alliance if prices are significantly hiked?

9. Impact on Government Revenue

- 9.1 The CTU strongly supported the Government investment in Air New Zealand and we want to see the Government continue as the majority shareholder.
- 9.2 The CTU does not agree with assertions in the NECG Report that a reduction in Government ownership improves governance. In fact, governance has been enhanced by Government ownership.
- 9.3 We also believe that the deadweight costs associated with investment of taxpayer funds is exaggerated. For instance it neglects the positive externalities that flow from Government investment in strategic assets such as transport infrastructure and capacity.

9.4 We are however concerned that there may be added pressures on Government revenue if there is a period of aggressive competition which is the more likely counterfactual.

10. Summary

10.1 The CTU supports the proposed Alliance.

10.2 We are seeking undertakings in relation to job security and additional engineering jobs. These undertakings should be made conditions of approval of the proposed Alliance.

10.3 We have made proposals that address the risks associated with a reduction in competition.